The Australia Institute

Research that matters.

Facts about the NSW Minerals Council Debate

1 – The report at the centre of this controversy is *Mining the Age of Entitlement: State government assistance to the minerals and fossil fuel sector*. Based entirely on state Treasury budget papers, we estimate state governments have spent $17.6 billion on measures which entirely, primarily or partly assist the minerals and fossil fuel industries.

2 – The Minerals Council recently commissioned a response report which says this $17.6 billion is not assistance or a subsidy because it is mostly infrastructure spending that has no impact on governments' fiscal position, or considered of "no relevance to the mining sector".

3 - Contrary to the remarkable assertions of the NSW Minerals Council, and their consultant, that spending on mining infrastructure has no impact on the budget the Queensland Treasury's own submission to the GST inquiry states the exact opposite. Indeed, the Queensland Treasury's submission to the Commonwealth GST inquiry confirms all of TAI's major claims. Queensland Treasury state, in part:

> *"Governments face budget constraints and spending on mining related infrastructure means less infrastructure spending in other areas, including social infrastructure such as hospitals and schools."*

And,

> *"One view expressed during the GST Distribution Review submission process was that infrastructure costs borne by government in support of the mining industry should not be recognised in the HFE process because the majority of these expenditures are cost recovered from industry. However, little evidence has been presented to support this assertion, and Queensland has substantial costs that are not recovered from industry, particularly in the area of roads construction. It seems likely that other mining states have similar expenditures."*

4 - When we were conducting our research we wrote to all of the state minerals councils asking for their own analysis of such support. The letter we sent the NSW council is here.

5 – We stand by the results of this report and reject the claims that other spending is not relevant to mining and fossil fuel industries. When we make mistakes we admit them. Recently, Rod realised he made a mistake with royalty calculations in planning submissions (unrelated to this topic). He wrote to the Newcastle Herald to inform them and ended up writing an opinion piece about his mistake.

6 – The mining lobby groups, by contrast, never admit when they're wrong. For example, they consistently claim their industry creates large numbers of 'indirect' jobs. In October 2013 the NSW Minerals Council put out their own 'input output modelling' study claiming that the industry's 23,000 workers actually "indirectly" employed 155,000 people. See NSW Minerals Council 2013.

This same type of modelling for estimates of 'indirect job creation' was described as "deficient" and rejected by the NSW Land and Environment Court in April that year. The ABS calls the processes "biased" and the Productivity Commission calls it "abused".

7 - Tellingly, while the Minerals Council continues to make exaggerated claims about job creation when talking to the media and politicians, their members no longer make such claims under oath in court. For example, in the Ashton mine case, Dr Jerome Fahrer from ACIL Allen appearing for Yancoal stated:

> *"An increase in the employment associated with the construction of the mine will lead to a destruction of a similar number of jobs elsewhere in the economy. (transcript p.545)*

And,

> *"WITNESS FAHRER: Okay. Well, I think Dr Denniss and I are in agreement that this project is not about jobs. I mean it's about the 162 people who will be employed in the mine, but it's not principally about--*
>
> *HER HONOUR: When you say it's not about jobs, you mean there won't be a lot resulting from the mine?*
>
> *WITNESS FAHRER: The major benefits of this job, economic benefits, macroeconomic benefits, are about incomes. They're not about job creation.*
>
> *(Transcript p550)*

Again, when we make mistakes we correct them. When the Minerals Council's analysis is criticised by the court, the ABS and the PC and their own members in subsequent court cases they stick with it.

8 - When we use ABS statistics to highlight that the Minerals Council is a small employer we are accused of being 'anti-mining' or not understanding the (imaginary) indirect job creation. However, when the Minerals Council was under pressure about the adverse impact of mining on other industries Mr Galillee made the following, rather familiar, observation:

> *"Contrary to many misconceptions, mining is actually a relatively small industry in NSW responsible for only 2.5% of Gross State Product. In 2005 there were 58 mines in NSW; in 2012 there are 61, a net increase of only three in seven years." July 2012 Stephen Galillee*

The full op-ed by Stephen Galillee is here.

9 - In publicly responding to our 'ending the age of entitlement' report Brendan Pearson, the head of the Minerals Council argued that they received no subsidies:

> *Look, the most independent analysis of assistance to industry sectors in Australia is that done by the Productivity Commission. It has found, year after year, that the mining industry receives no subsidies.*

They have previously admitted that they receive $240 million in subsidies while Mr Schur said they receive around $500 million.

These errors are far larger than The Australia Institute's - leaving aside the fact that we are sticking with the $17 billion estimate.

10 – Mr Galilee's insistence that the Productivity Commission considers net assistance to the mining industry to be "negligible" is a deliberately narrow reading of the source material. The document to which Mr Galilee refers to "the value of assistance as a proportion of (unassisted) value added". To that end, Mr Galilee is arguing not that the NSW mining industry receives negligible levels of taxpayer assistance, but rather that the rate of return on such assistance is enough to consider it effectively "negligible".

The same document, meanwhile, calculates total budgetary assistance, excluding diesel fuel rebates, to be $546 million in 2012-13. Some may question the wisdom of spending over half a billion dollars of taxpayer's dollars on an industry capable of performing with profit margins estimated by the Australian Bureau of Statistics to be over 30 per cent.

The full productivity commission Trade and Assistance Review is here.

11 – The mining lobby rejects claims that the government funding the provision of infrastructure to be used by the mining industry constitutes industry assistance, as the miners pay to use said infrastructure at commercial rates.

This argument ignores the financing arrangements required to deliver this infrastructure. The government is able to borrow the capital needed at a long-term bond rate, rather than the commercial rate mining companies would borrow at should they finance the development of infrastructure off their own back.

Christopher Pyne referred to this funding arrangement as an "inbuilt subsidy" in reference to the similar scheme in use with the HELP loan system. Likewise, Malcolm Turnbull referred to the government's provision of infrastructure to rural and regional populations in instances where there is insufficient capacity to finance it privately as "a big subsidy". Using this standard, so too must be considered infrastructure spending.

Put another way, why is the government borrowing to pay for students, who pay the money back, a subsidy, if the government borrowing to pay for mining companies, who pay the money back, not?